FUTURA MEDICAL plc



Innovative products for consumer health

FUTURA MEDICAL plc

Annual report and accounts **2008**

FUTURA MEDICAL

Futura Medical plc ("Futura") develops innovative products for the consumer healthcare market.

Our vision is to leverage our skills and expertise to bring to market some of the world's most innovative consumer healthcare products.

The Company's strategy is to out-license manufacture and distribution to major pharmaceutical and healthcare groups.

Futura is developing a portfolio of products in sexual healthcare and pain relief management and is evaluating further therapeutic opportunities as potential additions to its growing pipeline.

Futura is based at The Surrey Research Park, Guildford, Surrey, and its shares trade on the AIM market of the London Stock Exchange.

Our business strategy is centred on selecting and developing products based on five key criteria:

- **Return on Investment:** we focus on consumer healthcare products that offer the potential for a significant return on the costs of development.
- **Product Profile:** we focus on locally applied medicines, either stand-alone or in combination with a medical device. We only use existing chemical entities which enables us to have a lower risk profile.
- **Over The Counter ("OTC"):** our aim is to produce safe and effective OTC products made available to consumers on a general retail basis or through chemists without the need for a doctor's prescription.
- **Strong Intellectual Property:** the products are underpinned by our developing and retaining valuable intellectual property including know-how, patents and trademarks to protect their commercial position.
- **Licensing:** we aim to license our products during their development to established pharmaceutical and healthcare groups who offer the best potential commercial opportunities.

Highlights

- Substantial progress across the Company with receipt of positive regulatory opinion relating to the pharmaceutical aspects of CSD500, which will be the first commercial product
- TPR100 – Positive results from phase I study with commercial negotiations ongoing
- PET500 – Positive results from phase I study
- RAD100 – New product for local anaesthesia prior to injections which has shown impressive results in early clinical work
- Net loss of £1.93 million (2007: net loss of £2.25 million)
- Cash of £0.78 million at 31 December 2008 with a further £1.00 million equity funding raised in March 2009

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Futura at a Glance

We currently have five main products in development for sexual healthcare and pain relief management. These are CSD500, MED2002, TPR100, PET500 and RAD100. We are also actively working on the next generation of product opportunities.

Our licensing partnerships

Futura has signed a global distribution agreement with the world's largest branded condom manufacturer and distributor, SSL International plc (makers of the Durex® condom range), for CSD500 for the lifetime of its patents.

Futura has also signed a global development and licensing agreement with SSL International plc for MED2002, our topical treatment for erectile dysfunction.

SSL International

MAKERS OF durex®

"CSD500 is a highly innovative solution that will improve the sexual well-being of millions of people. We are committed to launching CSD500 as soon as possible and believe it will become a leading product in the Durex® portfolio."

Leigh Taylor, April 2009
Head of Innovation, SSL.

Following positive results from a study Futura conducted, we are in discussions for distribution rights for TPR100, our topical pain relief product.

dermasys® - Our proprietary drug delivery technology

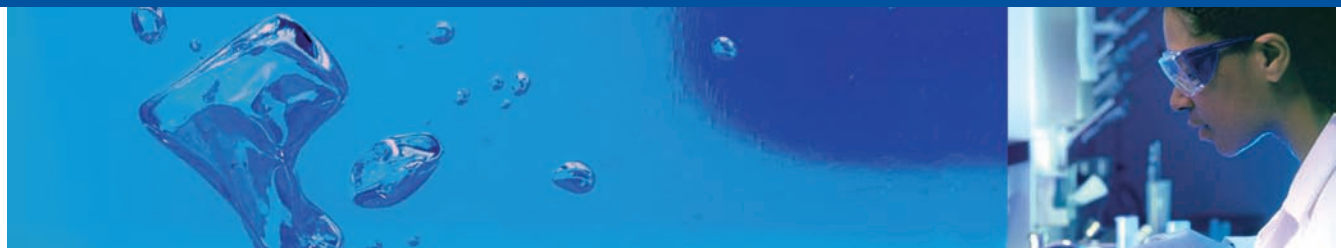
Futura has developed a highly efficient and proprietary transdermal delivery technology, DermaSys®, for the absorption of active molecules through the skin. The DermaSys® technology was originally developed by Futura for use in our topical treatment for erectile dysfunction, MED2002.

DermaSys® is a versatile technology in that it can be tailored to suit the specific active compound being used and the therapeutic indication. Such targeted delivery offers an optimised profile in terms of dose, onset time and duration of effect, as well as an improved safety profile through lower systemic uptake and the reduced risk of side effects.

Whilst developing PET500, our product for premature ejaculation, we also expanded the DermaSys® delivery technology platform and produced a new and unique delivery system, DermaSys® AquaFree, which does not contain any water. DermaSys® AquaFree enables drugs that are water sensitive, hydrolytically unstable or have only limited hydrolytic stability to be developed into potentially commercially attractive products with the additional benefit of rapid transdermal delivery.

To maximise the value of these intellectual property assets, we have been evaluating their use with a range of compounds.

Product Pipeline



The principal activity of the Group is the research and development of medical devices and pharmaceutical drugs and their commercial exploitation with the main focus being on sexual healthcare and pain relief management.

Devices

Pre-clinical	Early clinical	Late clinical	Design completion	Shelf life determination	Dossier submission	Dossier approval/ Market launch

CSD500

CSD500 is a condom that incorporates an erectogenic compound which comes into contact with the penis on application of the condom. This is aimed at helping healthy men maintain a full erection during intercourse whilst wearing a condom.

Drugs

Product evaluation	Pre-clinical	Phase I clinical	Phase II clinical	Phase III clinical	Dossier submission	Dossier approval/ Market launch

MED2002

MED2002 is a "rub-on" gel applied directly to the penis for the treatment of male erectile dysfunction.

Delivered by dermasys

TPR100

TPR100 is a product for the provision of topical pain relief.

Delivered by dermasys

PET500

PET500 is an OTC treatment for premature ejaculation using anaesthetic compounds.

Delivered by dermasys AQUAFREE

RAD100

RAD100 will be a product which provides rapid local anaesthesia prior to injections.

Delivered by dermasys AQUAFREE

Chairman's and Chief Executive's Joint Review

Dr William Potter and James Barder

The year to 31 December 2008 was another positive year for Futura during which we made significant progress with our pipeline of product opportunities and further developed our novel drug delivery platform, DermaSys®, to extend its range of applications.

We have been very pleased with the speed of topical delivery achieved by DermaSys®, so much so that we have added a new product to our pipeline, RAD100, which has the potential to offer rapid local anesthesia prior to injections, vaccinations and cannulations.

We have continued to manage our financial resources very carefully. Our cash burn remains modest and our balance sheet is free of debt. We work only on projects where the commercial and clinical opportunities are compelling and where, from an early stage, we have active interest from one or more potential commercial partners. We benefit from owning the intellectual property on all our products, hence maximizing potential shareholder return.

Our key focus throughout the year was on achieving EU marketing authorisation for CSD500, the product nearest to commercial launch in our portfolio. CSD500 is an innovative condom designed to help healthy men maintain a firm erection. This product will be marketed under the Durex® brand by our marketing and distribution partner SSL International plc ("SSL"), which is committed to launching CSD500 as soon as is practicable.

Towards the end of the financial year we were able to announce that we had achieved the key regulatory step of gaining a positive opinion for CSD500 from the EU Competent Authority in connection with the pharmaceutical aspects of the condom. This positive opinion is a critical part of the CE mark application, the regulatory approval mechanism for this class of medical device in Europe.

We had hoped that the CE mark would be awarded soon after the positive opinion from the EU Competent Authority but a strategic decision taken by SSL to relocate all condom manufacture to Asia, for sound commercial reasons, has created a regulatory requirement for additional manufacturing data on CSD500 from the new manufacturing location. It is therefore expected that CE marketing authorisation will be received around the end of the current year with the launch of CSD500 as soon as possible thereafter. Whilst this delay is frustrating for both Futura and SSL, we remain firmly on course to becoming a revenue generating business with a recurring royalty income stream from CSD500. We share SSL's belief that CSD500 is destined to become a highly successful product.

We have also been pleased with progress elsewhere in our portfolio. We highlighted a new product, RAD100, at the beginning of this joint review but we are also particularly pleased with the results of our study in healthy volunteers of our premature ejaculation product, PET500, which is designed to delay ejaculation and therefore improve sexual performance and satisfaction. Commercial discussions with potential licensees are ongoing for both products.

In March 2009 we raised a further £1.00 million gross in a share issue to new and existing investors in which all of the Executive Directors subscribed for shares. These additional funds will support our R&D programme ahead of the launch of CSD500.

Product updates

CSD500: Condom safety device

The highlight of 2008 for CSD500 came close to the year end with the positive regulatory opinion from the Competent Authority in the EU with respect to the pharmaceutical aspects of the product. This regulatory opinion marked the successful culmination of the clinical programme on CSD500. The Competent Authority confirmed that CSD500 is a Class III medical device with an ancillary medicinal substance.

As outlined above, the logical restructuring of SSL's global manufacturing base means that additional manufacturing data is required as part of the CE mark application, as the product will now be manufactured in Asia rather than in Europe. This work is already well underway and it is expected that CE marketing authorisation will be received around the end of the current year with the launch of CSD500 as soon as possible thereafter. We have no requirement to carry out further clinical work on CSD500.

In our 2007 annual report, we highlighted the successful outcome of a user study involving 108 couples in which CSD500 successfully met its endpoints of demonstrating the maintenance of a firmer erection in healthy men during sex and increased penile size and a longer lasting sexual experience.

In addition to positive clinical data, the results of our previously commissioned market research reinforce the commercial potential of CSD500. The market research, conducted by an internationally recognised research company, showed that 88% of existing condom users would be interested in purchasing CSD500 and that 49% of non-condom users would be interested in purchasing the product. The research also showed that 46% of men had experienced some loss of sensitivity when using a condom during sexual intercourse, which can lead to loss of erection. This is one reason why some men avoid condoms, thereby increasing the risks of unwanted pregnancies and contracting or spreading sexually transmitted infections ("STIs").

As supported by our market research we believe that CSD500 will have a strong appeal to men and women who already use condoms as well as men and women who do not currently use them.

STIs are a serious and growing problem. In the UK, a Government report from the Health Protection Agency[1], published in 2007, indicated that in the previous 10 years new cases of syphilis had increased by 1130%, HIV by over 300%, gonorrhea by 45% and chlamydia by 166%.

We have protected CSD500's unique intellectual property position throughout the world including the principal consumer markets within Europe, the US and Canada through patents now granted or proceeding to grant in 33 countries and applications pending in a further 3.

MED2002: Treatment for erectile dysfunction, and FLD500: Female lubrication device

MED2002, our topical gel for the treatment of men with erectile dysfunction, is also licensed to SSL and has the potential to become the world's first non-prescription pharmaceutical treatment for men with erectile dysfunction, a condition that affects, to some degree, as many as 52% of men aged 40 or over[2].

CSD500 and MED2002 are somewhat interdependent as they share the same active compound. To a large extent, the positioning of MED2002 in the market place, and the final details of the regulatory strategy, will depend upon SSL's and our experience following the launch of CSD500. It has therefore been agreed between us to prioritise resources towards launching CSD500 as soon as possible.

FLD500, a condom-based product designed to improve natural female lubrication during sexual intercourse, uses the same active compound as CSD500 but in FLD500 the active compound is on the outside of the condom so that it is rapidly absorbed through the vaginal mucosa during sexual intercourse. For FLD500, as with MED2002, the final marketing positioning and regulatory strategy will depend upon our experience in the launch of CSD500. With 40% of condoms being purchased by women we firmly believe that a female version of CSD500 would have considerable consumer appeal. The precise regulatory pathway and route to market will be determined with our commercial partner in due course.

TPR100: Topical pain relief

TPR100 leverages one of our key proprietary assets, DermaSys®, a highly efficient, transdermal delivery system, which facilitates rapid absorption of pharmacologically active ingredients through the skin. In TPR100 we are using DermaSys® for the topical delivery of a non-steroidal anti-inflammatory drug ("NSAID") for pain relief.

During the year we optimised the formulation and dose of the NSAID molecule and have recorded skin permeation rates between 30 to 40 times higher than that achieved by the market-leading product. Furthermore oral NSAID products are associated with side effects due to high systemic drug levels, therefore we feel there is a clear market opportunity for a faster acting topical formulation.

Following consultations with the relevant regulatory authorities we believe the regulatory pathway for TPR100 is relatively straightforward as the active compound is well characterised and has already been approved in both oral and topical form for the indication of pain relief. The minimum requirements to satisfy EU regulators are likely to comprise a Phase I trial of around 24 healthy volunteers to demonstrate a lack of skin irritation or sensitisation followed by a pivotal Phase III trial of around 250 subjects to demonstrate non-inferiority to a market-leading product in the treatment of pain secondary to osteoarthritis in the knee.

Based on our research and development programme so far we remain confident of a positive outcome to these studies, which we expect will be funded by our commercial partners. For this reason we do not intend to begin these trials prior to out-licensing TPR100. Commercial discussions continue with respect to the out-licensing of the product, either on a global or regional basis, and we look forward to updating our shareholders in due course.

PET500: Premature ejaculation treatment

Significant progress was made during the year with PET500, our premature ejaculation treatment which combines our DermaSys® delivery system with a well known mild topical anaesthetic compound. In December 2008 we announced positive results from a Phase I clinical study of 20 healthy volunteers in which PET500 was shown to give a rapid and controlled reduction in penile sensitivity, thereby having the potential to prevent premature ejaculation. No adverse events were recorded in the study.

PET500's formulation is designed to delay ejaculation for a period of approximately 8 minutes, after which time the effect of the mild anaesthetic dissipates. The Phase I study met all endpoints, which were devised following consultation with a number of leading medical experts in the field of premature ejaculation and on the basis of qualitative market research in patients.

We are currently awaiting feedback from the relevant regulatory authorities before deciding on the regulatory positioning of PET500. Our preference is to develop a product that reduces penile sensitivity to help those men who suffer from early ejaculation who would like to prolong the sexual experience with their partner. The regulatory positioning of the product will determine our commercial strategy though we are already in discussions with several parties.

RAD100: Rapid anaesthetic delivery

This is a new gel under development which provides rapid local anaesthesia prior to injections. The impressive results seen in our Phase I study of PET500, which used a low dose of the same active ingredient, prompted us to explore the potential of the same concept at a much higher dose to provide rapid topical anaesthesia prior to injections, vaccinations and cannulations. Demand in this market is already well developed but poorly served with treatments taking at least 30 to 45 minutes to take effect. We believe there is clear commercial potential for a product in which the speed of onset of skin desensitisation is significantly faster.

In early clinical work already completed, we have shown a 250% increase in the rate of permeation of a topical anaesthetic across the skin using RAD100 and the DermaSys® delivery system when compared to a market leading product. This substantial increase in skin permeation is expected to equate to a more rapid onset of skin desensitisation compared to existing products.

RAD100 has already attracted interest from commercial partners and we are in commercial discussions for this product.

DermaSys®

In response to the technical challenge of formulating PET500, we expanded our DermaSys® delivery technology platform by designing a unique non-aqueous carrier, DermaSys® AquaFree. This new system, which incorporates the benefits of our existing DermaSys® technology, provides the potential for hydrolytically unstable (i.e. water-sensitive) drugs to be developed into commercially attractive topical products.

Chairman's and Chief Executive's Joint Review Continued

People

We have continued to run a highly efficient business with a focus on cost control. Staff numbers (including non-executive directors) were 10 at the year end, compared with 14 at 31 December 2007. We would like to offer our sincere thanks to all of our staff and scientific advisers for their dedication and commitment throughout the year.

Outlook

We are making good progress across our product portfolio whilst being very mindful of our resources and product priorities. We remain firmly on course to becoming a revenue generating business with a recurring royalty income stream from CSD500 and share our commercial partner's belief that CSD500 is destined to become a highly successful product.

Dr W D Potter
Chairman

J H Barder
Chief Executive

Note

[1] The UK Collaborative Group for HIV and STI Surveillance. Testing Times. HIV and other Sexually Transmitted Infections in the United Kingdom: 2007. London: Health Protection Agency, Centre for Infections. November 2007.

[2] Massachusetts Male Aging Study (MMAS), J Urol. 1994 Jan; l5l (1): 54-61

Directors' Report: Financial Review

Derek Martin

The Group finished the year with costs remaining firmly under control, an expanded development portfolio and the prospect of recurring revenues moving closer.

International Financial Reporting Standards

The Financial Review should be read in conjunction with the consolidated financial statements and the Notes to the Consolidated Financial Statements set out on pages 28 to 47.

The annual report for the Group is presented under International Financial Reporting Standards as adopted by the European Union ("IFRS"). The financial statements of the Company are prepared in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and are set out on pages 48 to 50.

Revenue

Group revenue for the year ended 31 December 2008 was £150,000 (2007: £15,000). Grant income for the year ended 31 December 2008 was £73,828 (2007: £96,172).

In accordance with our revenue accounting policy, the fee received in 2007 in respect of the TPR100 exclusivity agreement has been recognised as revenue in 2008 as the relevant conditions of the agreement have now been met.

Losses

The Group continues to maintain a focus on tight control of all expenditure.

The Group's loss after taxation for the year ended 31 December 2008 was £1.93 million (2007: £2.25 million). The Group's operating loss for the year ended 31 December 2008 was £2.17 million (2007: £2.62 million).

Loss per share for the year ended 31 December 2008 was 3.4 pence (2007: 4.1 pence).

No dividends were paid and none are proposed by the Directors (2007: £nil).

Financial instruments

The financial instruments held by the Group are disclosed in note 13 of the Notes to the Consolidated Financial Statements.

Group research and development costs

The Group aims to achieve cost effective research and development and to bring products to market through licensing partners as soon as is practicable.

Group research and development costs each year reflect the number of products being developed, the stage of development reached for each and the impact on their progress of external factors.

Directors' Report: Financial Review Continued

Research and development ("R&D") costs of £1,390,616 are lower compared to 2007, largely due to the scale down of activity pending receipt of regulatory approval for CSD500.

The table below shows the trend in our research and development costs and other administrative costs over the past five years ended 31 December:

	2008 IFRS £	2007 IFRS £	2006 IFRS £	2005 UK GAAP £	2004 UK GAAP £
Research and development costs	1,390,616	1,508,269	1,079,986	1,553,056	971,043
Other administrative costs	1,007,964	1,227,320	1,029,075	805,161	754,725
Total operating costs	2,398,580	2,735,589	2,109,061	2,358,217	1,725,768
R&D ratio	58%	55%	51%	66%	56%

The figures for the years 2005 and prior, prepared under UK GAAP, were not restated for the holiday pay accrual under IAS 19 as the figures were not materially different.

The R&D ratio is the percentage of research and development costs relative to total operating expenses. The Board is mindful to keep a sensible balance as reflected in this ratio. Total research and development spend since formation of the business in 1997 totals £9.11 million (which represents 55.2% of total cumulative operating costs). During the year, the sole subsidiary Futura Medical Developments Limited continued to incur this research and development expenditure which has been accounted for as explained in accounting policy note 1.7 of the Notes to the Consolidated Financial Statements and has been written off as incurred for all reporting periods prior to and including the year ended 31 December 2008.

The Board considers that this overall total research and development spend relative to its pipeline of later stage products and emerging new products distinguishes the Group's lower funding requirements and risk profile from more typical businesses in the wider pharmaceutical industry. The Group's strategy is to focus on medical devices and pharmaceutical drugs that offer the potential for a significant return on the costs of development. As well as progressing its existing research and development programme, the Group continues to seek new opportunities for potential products to add to its portfolio.

Other administrative costs

Other administrative costs for the year ended 31 December 2008 were £1,007,964 (2007: £1,227,320). These comprise all other operating costs excluding those relating to product development and associated intellectual property. The main constituents and their relative proportions were:

	Year ended 31 December 2008	Year ended 31 December 2007
Wages and salaries	63%	53%
Legal and professional advisers	24%	22%
Office costs and staff expenses	12%	13%
Licensing negotiations	1%	12%
	100%	100%

The principal reasons for the decrease in other administrative costs relate to commercial and negotiation costs in respect of the development and licensing of MED2002 incurred in 2007. During 2008 we made significant cost savings as we reacted to the economic conditions and the scale down of research activity pending receipt of regulatory approval for CSD500 and the move towards revenue generation. This completes the current configuration of the central functions of the Group as the platform for the next phase of the growth strategy.

Supplier payment policy

The Group's policy concerning the payment of its trade creditors is to pay on the basis of the agreed terms of payment established with each supplier, providing that all terms and conditions have been complied with and are in accordance with the Group's financial control procedures.

The average credit period for the Group (expressed as creditor days) during the year ended 31 December 2008 was 19 days (2007: 18 days). At the year end the Company had trade creditors totalling £2,211 (2007: £2,697) giving rise to an average credit period for the year ended 31 December 2008 of 7 days (2007: 9 days).

Charitable and political contributions

No political donations were made during either year. Charitable donations of £200 were made during the year (2007: £236).

Taxation

A research and development tax credit of £143,443 (2007: £208,717) in respect of research and development expenditure incurred has been recognised in the financial statements. The decrease compared to 2007 reflects the reduced level of research and development expenditure in the year.

Capital structure and funding

The Group remains funded primarily by equity capital. This reflects the development status of its products, which is summarised in the Product Pipeline on page 3.

Cash held by the Group at 31 December 2008 totalled £0.78 million. This comprised cash and cash equivalents and medium term deposits with original maturities of more than three months, shown below at each year ended 31 December:

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Medium term deposits	–	–	1.04	–	–
Cash and cash equivalents	0.78	2.64	2.74	1.81	3.67
Total cash	0.78	2.64	3.78	1.81	3.67

The Group did not have any bank borrowings at 31 December 2008 (2007: £nil).

There were no shares issued in the year. The total cash raised from share issues by the Group from formation of the business in 1997 until 31 December 2008 is £14.53 million, net of costs.

On 12 March 2009, the Group raised £1.00 million following a private placing of 5 million shares at 20 pence per share. The funds raised are for general corporate and research and development purposes.

Other significant sources of funding received for the Group from formation of the business until 31 December 2008 comprised research and development tax credits of £1.22 million, bank interest of £0.84 million and R&D grants of £0.24 million.

D A Martin
Secretary

Directors' Report: Business Review

Principal activity

The principal activity of the Group is the research and development of pharmaceutical drugs and medical devices and their commercial exploitation. The Chairman's and Chief Executive's Joint Review on pages 4 to 8 and the Financial Review on pages 9 to 11 set out in more detail the Group's activities during the year and anticipated future developments.

Research and development activities

The main area of research and development continues to be in the field of innovative pharmaceutical drugs and medical devices for the consumer healthcare market with the main focus being on sexual health and pain relief management.

Group strategy

The Group strategy is to focus on developing innovative products for the consumer healthcare market. This strategy responds to the well publicised demographic change of an aging population, increasing prosperity, Government initiatives to increase self-medication, the natural desire for improved quality of life and the Directors' expectations that consumer healthcare spending will increase as a result. The objective is to develop products such that each on its own has the potential to generate significant annual revenues in excess of our total Group annual operating costs.

The Group pursues this strategy by selecting and developing products with regard to five elements:

- Return on Investment: we focus on consumer healthcare products that offer the potential for a significant return on the costs of development.
- Product Profile: we focus on locally applied medicines, either stand-alone or in combination with a medical device. We only use existing chemical entities which enables us to have a lower risk profile.
- Over The Counter ("OTC"): our aim is to produce safe and effective OTC products made available to consumers on a general retail basis or through chemists without the need for a doctor's prescription.
- Strong Intellectual Property: the products are underpinned by our developing and retaining valuable intellectual property including know-how, patents and trademarks to protect their commercial position.
- Licensing: we aim to license our products during their development to established pharmaceutical and healthcare groups who offer the best potential commercial opportunities.

Two of our products (CSD500 and MED2002) involve the application of the same chemical active, in each case to the sexual health field. The development of our proprietary delivery technology, DermaSys®, is enabling the expansion of our product pipeline to include new active molecules (reducing the dependence on one single active). PET500, TPR100 and RAD100 represent the first applications of our DermaSys® technology to our next generation of products.

Long lead times for product development characterise the pharmaceutical industry. However, the Board seeks to drive the business through to revenue generation as soon as is practicable with due regard to regulatory standards and an appropriate commercial approach. This is achieved through swift decision-making, highly capable staff and the involvement of excellent external expertise.

At the same time, the Directors remain committed to keeping regular or fixed costs restricted to an appropriate level through the continued and judicious use of outsourcing external consultants and professional advisers. Clearly, the lower the Group's costs the earlier that revenue generation would lead to a key future financial milestone of monthly break-even and profitability.

The consumer healthcare market and competitive environment

The Group develops products that address the consumer healthcare market. The Group considers there to be two distinct categories within this market.

The first category is the global OTC market representing all sales of non-prescription medicines. The non-prescription drugs being developed by the Group are shown in the Product Pipeline on page 3. These comprise the sexual health products MED2002 and PET500, which could form a new category within the OTC market, and the pain relief product TPR100, which fits within the US$12 billion global analgesics market[1] and where the current market leader for topical analgesics has annual sales of US$260 million[1]. Although there is no published authoritative sexual health OTC market data, the prescription market for erectile dysfunction treatments alone was estimated to be more than US$3.4 billion[2] in 2007.

The second category is the global consumer medical devices market. The Directors estimate that the market for consumer medical devices is worth between US$17 billion and US$22 billion. The consumer medical device being developed by the Group is shown in the Product Pipeline on page 3, this is the condom product CSD500, which fits within the US$3.1 billion global condom market[3] and where our distribution partner SSL International plc, the makers of Durex®, are the global leader with over 30% market share[4].

These consumer healthcare markets are dominated by global pharmaceutical and consumer healthcare groups with established distribution networks. Smaller research and development companies, such as Futura, seek to license out their innovative products to these larger players.

Futura offers its licensing partners its ability to identify commercially attractive consumer healthcare product opportunities coupled with a lower cost, expertise and faster development model, backed by strong patent protection. In return for this, Futura seeks significant royalties from future sales of these products through its partners and their established distribution networks.

Note

[1]2006 calendar year. Source: OTC Yearbook 2007 (MSP), Nicholas Hall & Company

[2]Futura estimate based on erectile dysfunction sales data from 2007 Annual Reports for Pfizer, Lilly and Bayer

[3]2006 calendar year. Source: "Condoms: A Global Strategic Business Report", Jan. 2007, Global Industry Analysts, Inc

[4]SSL International plc Annual Report and Accounts 2007

Directors' Report: Business Review Continued

Key performance indicators
The Directors consider the successful achievement of development, licensing and commercialisation milestones and the number of products under development (beyond the evaluation stage) to be the major drivers of value creation for the Group. These are measures of the progress of the business towards its revenue generation goal and are considered by the Board to be the key non-financial performance indicators used to determine achievement of Group strategy. The Group's performance with regard to such milestones is discussed in the Chairman's and Chief Executive's Joint Review on pages 4 to 8.

The Directors consider Group cash and the absolute values of, and the ratio between, research and development costs and other administrative overhead costs as being the Group's key financial performance indicators. The cost related indicators assist in monitoring financial control to reduce the hurdle to achieving the key future financial milestone of monthly break-even. The monitoring of cash gives due consideration to anticipated future spend required to prioritise development opportunities and to plan the resources required to achieve the goals of the business. The Directors' Report: Financial Review on pages 9 to 11 considers these financial performance indicators.

Principal risks and uncertainties
The development of pharmaceutical drugs and medical devices requires the necessary safety, stability and efficacy to be demonstrated in clinical programmes in order to meet the requirements of the appropriate regulatory bodies. These may not be successful. The Directors consider that the key risks of the Group are:

Clinical development and regulatory risk
There can be no guarantee that any of the Group's products will be able to obtain or maintain the necessary regulatory approvals in any or all of the territories in respect of which applications for such approvals are made. Where regulatory approvals are obtained, there can be no guarantee that the conditions attached to such approvals will not be considered too onerous by the Group or its distribution partners in order to market its products effectively.

The Group seeks to reduce this risk by developing products using safe, well characterised active compounds with known risk profiles, through seeking advice from regulatory advisers and consultations with regulatory approval bodies and through working with experienced distribution partners.

Commercial risk
There can be no guarantee that the Group will succeed in establishing and maintaining the necessary contractual relationships with licensing partners for its products under development.

Even if the Group's products are successfully developed and approved by the appropriate regulatory bodies, they may not be successfully launched by the Group's licensing partners or enjoy commercial acceptance.

The Group seeks to reduce this risk by selecting experienced licensing partners, maintaining and developing its relationship with these partners and seeking the development of new products of interest to these partners.

Funding risk
The Group continues to incur substantial operating expenses. Until the Group generates positive net cash inflows from the successful development and commercialisation of its products it remains dependent upon additional funding through the injection of capital from share issues or from its licensing and development partners. The Group may not be able to generate positive net cash inflows in the future or to attract such additional required funding at all, or on suitable terms. In such circumstances the development programmes may be delayed or cancelled and the business operations cut back.

The Group seeks to reduce this risk by keeping a tight control on expenditure, avoiding long term supplier contracts (other than clinical trials), prioritising development spend on products closest to potential revenue generation, maintaining a focused portfolio of products under development and keeping shareholders informed of progress.

As described in the Chairman's and Chief Executive's Joint Review on pages 4 to 8 and the Financial Review on pages 9 to 11 the current economic environment is challenging and the Group has reported an operating loss for the year. Whilst measures have been instituted to preserve cash and secure additional funding these circumstances create uncertainty over future availability of funding.

As explained in the Financial Review on page 11 additional equity funding of £1.0 million was obtained in March 2009.

After making enquiries about further funding opportunities and considering the uncertainties described above, the Directors have a reasonable expectation that the Group and the Company will be able to obtain adequate resources to continue in operational existence for the foreseeable future. For these reasons the Directors continue to adopt the going concern basis in preparing the financial statements.

Treasury and financial risk
Treasury and financial risk management policy is concerned with financial instruments and management of interest rate risk and currency risk. Financial risks are quantified in note 2 of the Notes to the Consolidated Financial Statements and were not considered significant at the balance sheet date.

Competition risk
The Group's current and future potential competitors include, amongst others, major multinational pharmaceutical and healthcare companies with substantially greater resources than those of the Group. There can be no assurance that competitors will not succeed in developing systems and products that are more effective or economic than any of those developed by the Group, with its distribution partners, or which would render the Group's products obsolete or otherwise non-competitive.

The Group seeks to reduce this risk by securing patent registration protection for its products, maintaining confidentiality arrangements regarding Group know-how and technology, monitoring technological developments and the selection of leading businesses in their respective fields as licensing partners capable of addressing significant competition, should it arise.

Intellectual property risk
The commercial success of the Group and its ability to compete effectively with other companies depends, amongst other things, on its ability to obtain and maintain patents sufficiently broad in scope to provide protection for the Group's intellectual property rights against third parties and to exploit its pharmaceutical products. The absence of any such patents may have a material adverse effect on the Group's ability to develop its business. The Group seeks to reduce this risk by only developing products where legal advice indicates patent protection would be available, seeking patent protection for the Group's products, maintaining confidentiality agreements regarding Group know-how and technology and monitoring technological developments and the registration of patents by other parties.

The commercial success of the Group also depends upon not infringing patents granted, now or in the future, to third parties who may have filed applications or who have obtained, or may obtain, patents relating to business processes which might inhibit the Group's ability to develop and exploit its own business.

D A Martin
Secretary

Directors' Report: Corporate Governance

Introduction

The Board is committed to maintaining appropriate standards of Corporate Governance. Although not mandatory for AIM quoted companies, the Group accepts the principles of good Corporate Governance as embodied in the Combined Code.

In assessing the appropriate standards of Corporate Governance, the Board continues to be mindful of the nature and size of the Group and has given due consideration to the Quoted Companies Alliance ("QCA") Guidelines (published in 2005).

There have been no changes to our Corporate Governance processes and our compliance with the Combined Code and QCA Guidelines following our annual review.

Statement of compliance

The Group's practice and procedures comply with the QCA Guidelines in all respects except that the Audit Committee report is included within this Corporate Governance section rather than forming a separate report.

As previously disclosed, the Board considers that given the size and nature of its activities it does not intend to comply with the Combined Code in respect of certain items listed below. None of these items is required by the QCA Guidelines. This is considered by the Board to be reasonable and does not compromise the overall principles of Corporate Governance which the Board strongly supports:

- There is no preclusion to the Chief Executive becoming Chairman although there is no current intention for this succession.
- The Remuneration Committee, in deciding on remuneration at its annual review each January, takes into account the performance of the Group as a whole and the individual Directors. However, the nature of this performance evaluation is not specified in the Annual Report.
- Where the Board permits the Executive Directors to serve in roles with other companies, as long as they do not compromise the individual's ability to perform his services to the Group, the earnings from such roles are not disclosed to the Board nor paid to the Group.

The Board considers that the remuneration of Executive Directors does include a performance related element which is almost entirely based on the award of share options or other share-based incentives as recommended by the Remuneration Committee and details are set out in the Directors' Report: Remuneration Report on pages 21 to 25.

Board of Directors

The Board of Directors has overall responsibility for the Group.

The Board comprises an Executive Chairman, two independent Non-Executive Directors and three further Executive Directors. The Chairman has share options in the Company and provides consulting services to the subsidiary, Futura Medical Developments Limited. The two independent Non-Executive Directors do not have shareholdings or options in the Company and solely receive fees as Non-Executive Directors. The Board continues to be satisfied that it has an appropriate mix of independence and experience in its Non-Executive Directors.

The roles of Chairman and Chief Executive are and will remain separate and it is not permissible for the same individual to be appointed to both roles simultaneously. The Company does not formally preclude a Chief Executive being appointed as Chairman upon resignation as a Chief Executive but there are no plans for this succession.

The Chairman provides strategic and operational guidance bringing to bear extensive experience of the medical device and pharmaceutical industries. He also oversees the duties performed by the Chief Executive and ensures that they are in line with Board expectations with a particular emphasis on monitoring product development. The Chief Executive manages the day-to-day running and strategic direction of the Company in line with policy decisions given by the Board and shareholder expectations with particular emphasis on the commercial direction of the Company.

Board of Directors (continued)

The Board retains full control of the Group with day-to-day operational control delegated by the Board to the Executive Directors. The full Board meets bi-monthly and on any other occasions it considers necessary. During 2008, there were seven Board meetings, four meetings of the Audit Committee, three meetings of the Nominations Committee and two meetings of the Remuneration Committee. All meetings were fully attended by their constituent Directors.

The Board is responsible for approving interim and annual financial statements, formulating and monitoring Group strategy and approving financial plans and reviewing performance, as well as complying with legal, regulatory and corporate governance matters. There is a schedule of matters reserved for the Board. Board papers are circulated in advance of each Board meeting.

A Slater resigned as a Non-Executive Director and was replaced by L Arnold on 31 March 2008.
A L Clayden resigned as Company Secretary and was replaced by D A Martin on 8 May 2008. A L Clayden resigned as a Director on 31 May 2008.
D A Martin was appointed a Director on 24 September 2008.

Biographies of the current Board are set out below.

Dr. William Potter, PhD
Executive Chairman

Dr. Potter became Chairman in June 2001. He is an adviser to the Nominations Committee and to the Remuneration Committee. He provides advice and expertise on product development matters bringing to bear his considerable experience. He has spent 37 years in research and development including 29 years of bringing new products to market involving a wide range of medical devices. He has extensive knowledge of worldwide regulatory procedures, intellectual property issues and licensing. Dr. Potter previously worked at London International Group plc, including 7 years as Group Scientific Affairs Director and at Smith & Nephew plc.

James Barder
Chief Executive

Mr. Barder joined the Company as Chief Executive in June 2001. He assists the Remuneration and the Nominations Committees (but is not a member of and does not vote on either). He has overall responsibility for all activities of the Group, is a principal contact for all shareholder and investor relations matters and leads licensing and distribution negotiations and new product development activities. He first became involved with the Group as an investor in 1997 and has been a Director of the subsidiary since 1998. Prior to becoming Chief Executive, he was Managing Director of Aon Capital Markets Limited. Mr. Barder has predominantly worked in the field of insurance and finance including firms he founded and co-owned. Mr. Barder is also a Non-Executive Director of Lorega Limited.

David Davies, BSc (Hons), MBA
Product Development Director

Mr. Davies has been a Director of the Company since September 2001. He is responsible for all product development programmes for the Group. Prior to joining the Company, Mr. Davies was Director of Project Management at Clintrials Research Limited. He has 25 years of experience of pharmaceutical and healthcare product development, within pharmaceutical companies and global contract clinical research organisations. Previous employers include Porton Down, Glaxo Group Research, Wellcome Research Limited, Zambon Limited and PPD Pharmaco Limited. Mr. Davies is also company secretary of the registered charity Ordinary 2 Extraordinary Limited and is a trustee of The Gary Evans Charitable Trust.

Directors' Report: Corporate Governance Continued

Jonathan Freeman, BA (Hons), MBA
Senior Independent Non-Executive Director and Chairman of Remuneration Committee and Audit Committee

Mr. Freeman joined the Board in July 2003 and was appointed Senior Independent Non-Executive Director in November 2003. As well as chairing the Audit and the Remuneration Committees, he is also a member of the Nominations Committee. He provides guidance on City regulatory matters, corporate finance and investor relations. He provides over 15 years of corporate finance experience with previous roles including; Partner at Gambit Corporate Finance, Director of Beeson Gregory and involvement in the creation of EASDAQ. Mr. Freeman is also an Executive Director of Creon Corporation plc, Syndicate Asset Management plc and a Non-Executive Director of AIM quoted Cobra Capital Limited and Equity Pre-IPO Investments Limited.

Lisa Arnold
Independent Non-Executive Director and Chair of Nominations Committee

Ms. Arnold joined the Board in March 2008. As well as chairing the Nominations Committee, she is also a member of the Remuneration and the Audit Committees. She has extensive experience of the investment and healthcare sectors. She worked in the investment banking industry from 1984 to 2001, holding senior positions including sector head of pharmaceuticals and healthcare at UBS and Commerzbank. Since 2001, Ms. Arnold has worked in consultancy and non-executive roles predominantly in the pensions, healthcare and technology sectors. She is currently a Non-Executive Director of the UK's Medicines and Healthcare products Regulatory Agency ("MHRA"), where she also chairs the Risk & Audit Committee, and an adviser to the Allied Domecq Pension Funds and the Kraft UK Pension Fund (Trustees).

Derek Martin, BSc (Hons), ACA
Finance Director and Company Secretary

Mr. Martin joined the Company as Financial Controller in April 2007, became Company Secretary in May 2008 and joined the Board as Finance Director in September 2008. He oversees the Group's finance function and also its compliance procedures. Mr. Martin qualified as a Chartered Accountant in 1984 and has more than 20 years experience of a variety of senior accounting roles in a diverse range of industries including software, retail, telecoms and media. Recent roles have included positions of Financial Controller at Links of London, a retail jeweller, and Entuity Limited, a software development company.

Audit Committee

The Audit Committee comprises the Non-Executive Directors, J D Freeman and L Arnold, and is chaired by J D Freeman as Senior Independent Non-Executive Director. It meets as required and specifically to review the Interim Report and Annual Report and to consider the suitability and monitor the effectiveness of the internal control processes. There were four Audit Committee meetings during 2008. The Audit Committee reviews the findings of the external auditors and reviews accounting policies and material accounting judgements.

The independence of the auditors is considered by the Audit Committee. The Audit Committee (with no Executive Director present) meets at least once per calendar year with the auditors to discuss their objectivity and independence, the Annual Report, any audit issues arising, internal control processes and any other appropriate matters. As well as providing audit related services, the auditors also provide taxation advice. The fees in respect of audit and tax services are disclosed in Note 5 to the consolidated financial statements. Further, the overall fees paid to the auditors are not deemed to be of such significance to them as to impair their independence. The Audit Committee considers that the objectivity and independence of the auditors is safeguarded.

The current terms of reference of the Audit Committee are set out in the governance pages on the Group's website (www.futuramedical.co.uk).

Internal control

The Directors are responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risk of failure to the achievement of business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Audit Committee continues to monitor and review the effectiveness of the system of internal control and report to the Board when appropriate with recommendations.

The annual review of internal control and financial reporting procedures did not highlight any issues warranting the introduction of an internal audit function. It was again concluded, given the current size and transparency of the operations of the Group, that an internal audit function was still not required.

The main features of the internal control system are outlined below:

- A control environment exists through the close management of the business by the Executive Directors. The Group has a defined organisational structure with delineated approval limits. Controls are implemented and monitored by the Executive Directors.
- The Board has a schedule of matters expressly reserved for its consideration and this schedule includes acquisitions and disposals, major capital projects, treasury and risk management policies and approval of budgets.
- The Group utilises a detailed budgeting and forecasting system. Detailed budgets are prepared annually by the Executive Directors before submission to the Board for approval. Forecasts are updated at least quarterly to reflect changes in the business and are monitored by the Board including future cash flow projections. Actual results are monitored against annual budgets in detail on a six monthly basis, with variances highlighted for the Board.
- Financial risks are identified and evaluated for each major transaction for consideration by the Board and senior management.
- Standard financial control procedures operate throughout the Group to ensure that the assets of the Group are safeguarded and that proper accounting records are maintained.
- A risk review process is in operation whereby the Chief Executive and Financial Director present a report to the Board each year on the key business risks.

Going concern

As disclosed in the Business Review on page 15 the financial statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Directors' qualifying third party indemnity provisions

The Group has made qualifying third party indemnity provisions in favour of the Directors against liability in respect of proceedings brought by third parties and these remain in force at the date of this Directors' Report.

Nominations Committee

The Nominations Committee comprises the independent Non-Executive Directors and is chaired by L Arnold. Dr. W D Potter, as Executive Chairman, acts as an adviser to the Nominations Committee because of his knowledge of the industry, however, by virtue of his executive role, he is not considered to be independent and is excluded from voting.

The Nominations Committee monitors the requirements of the Group in respect of Board composition as the Group evolves and with regard to succession planning. There were three Nominations Committee meetings during 2008. The terms of reference of the Nominations Committee are set out in the governance pages on the Group's website (www.futuramedical.co.uk).

Directors' Report: Corporate Governance Continued

Employees

At 31 December 2008, the Group's employees comprised: two Non-Executive Directors, four Executive Directors and three full-time and one part-time member of staff, all of whom are employed by the subsidiary.

The Executive Directors keep staff informed of the progress and development of the Group regularly through formal and informal meetings and employee feedback is encouraged. The Group has a policy of offering share options or other share-based incentives to all eligible employees with due consideration to the level of dilution to shareholders.

The Group does not discriminate between employees and prospective employees on grounds of age, race, disability, religion or gender.

The Board recognises its obligation towards its employees to provide a safe and healthy working environment. The Group complies with health and safety legislation including conducting regular inspections and risk assessments.

Environmental, social and community matters

As a result of the size and nature of our operations, the impact of the Group's operations on the local community and the environment is not considered to be significant. Recycling of office supplies is undertaken where possible. The Group operates in a highly regulated industry and clinical trials are conducted in compliance with regulatory requirements. The Group undertakes regular reviews of corporate social responsibility matters with policy updates and implements improvements to its operations where identified.

Relationship with shareholders

The Directors seek to build a mutual understanding of objectives between the Company and its shareholders. The Group reports formally to shareholders in its Interim and Annual Reports setting out details of its activities. In addition, the Group keeps shareholders informed of events and progress through the issue of regulatory news in accordance with the AIM rules of the London Stock Exchange. The Chief Executive and Financial Director seek to meet with institutional shareholders following interim and final results. The Group also maintains investor relations pages and other information regarding the business, its products and activities on its website (www.futuramedical.co.uk).

Where possible the Annual Report is made available to shareholders at least 20 working days before the Annual General Meeting. Directors are required to attend Annual General Meetings of the Company unless unable to do so for personal reasons or due to pressing commercial commitments. Shareholders are given the opportunity to vote on each separate issue. The Company counts all proxy votes and will indicate the level of proxies lodged for each resolution, after it has been dealt with by a show of hands.

D A Martin
Secretary

Directors' Report: Remuneration Report

Remuneration Committee: composition and terms of reference

The Remuneration Committee comprises the independent Non-Executive Directors and is chaired by J D Freeman. Dr W D Potter, as Executive Chairman, acts as an adviser to the Remuneration Committee because of his knowledge of the industry. However, by virtue of his executive role, he is not considered to be independent and is excluded from voting.

The purpose of the Remuneration Committee is to ensure that the Executive Directors and other employees are fairly rewarded for their individual contribution to the overall performance of the Group. The Committee considers and recommends to the Board the remuneration of the Executive Directors and is kept informed of the remuneration packages of senior staff and invited to comment on these.

The Board retains responsibility for overall remuneration policy. The committee operates within agreed terms of reference which are published on the governance pages on the Group's website (www.futuramedical.co.uk). There were two Remuneration Committee meetings during 2008. There were no changes to the terms of reference of the Remuneration Committee during the year ended 31 December 2008.

Policy on Executive Directors' remuneration

Executive remuneration packages are designed to attract and retain executives of the necessary skill and calibre to run the Group. Direct benchmarking of remuneration is not possible given the specialised nature and size of the Group. The Remuneration Committee recommends to the Board remuneration packages by reference to individual performance and uses the knowledge and experience of the Non-Executive Directors and the Executive Chairman and published surveys relating to AIM directors, the pharmaceutical industry and market changes generally. The Remuneration Committee has responsibility for recommending any long term incentive schemes.

The full Board determines whether or not Executive Directors are permitted to serve in roles with other companies. Such permission is only granted where a role is on a strictly limited basis, where there are no conflicts of interest or competing activities and providing there is not an adverse impact on the commitments required to the Group. Earnings from such roles are not disclosed nor paid to the Group.

There are four main elements of the remuneration package for Executive Directors and senior staff:

(i) Basic salaries and benefits in kind

Basic salaries are recommended to the Board by the Remuneration Committee, taking into account the performance of the individual and the rates for similar positions in comparable companies. Benefits in kind comprising death in service insurance, permanent health insurance and private medical insurance are available to all staff and Executive Directors (excluding the Chairman). Salary alternatives are available instead of the benefits in kind. Benefits in kind are not pensionable.

(ii) Share options and other share-based incentives

The Company operates approved and unapproved share option schemes for the Executive Directors and other employees to motivate those individuals through equity participation. Unapproved options are occasionally granted to key consultants. Exercise of options under the schemes is subject to specified exercise periods and compliance with the AIM rules of the London Stock Exchange.

The schemes are overseen by the Remuneration Committee which recommends to the Board all grants of share options based on the Committee's assessment of personal performance and specifying the terms under which eligible individuals may be invited to participate.

Directors' Report: Remuneration Report Continued

(ii) Share options and other share-based incentives (continued)
The Combined Code refers to the requirement for the performance-related elements of remuneration to form a significant proportion of the total remuneration package of Executive Directors and should be designed to align their interests with those of shareholders. In the development phase of the Group and during the early stages of revenue generation, the Remuneration Committee currently considers that the best alignment of these interests is through continued use of incentives for performance through the award of share options or other share-based arrangements.

The Company operates a long term incentive scheme, The Futura Medical plc Phantom Share Plan. The quantum of any awards receivable by the Executive Directors will depend on the Company achieving set milestones and the share price at the time relative to targets set in advance. As a guide, if the approved milestone is achieved at the share price targets over the next 48 months and if the Company exercised its discretion to settle the award in equity then the additional shares issued in after tax settlement would be equivalent to approximately 1.37% of the issued share capital, after allowing for the 5,000,000 shares issued in March 2009.

(iii) Bonus scheme
The Company has an established discretionary bonus scheme for staff. The Remuneration Committee considers that cash bonuses for Directors will remain restricted until the Company has achieved break-even and only one such bonus has been paid to date.

(iv) Pension contributions
The Group pays a defined contribution to the pension scheme of Executive Directors (except the Chairman) and other employees. The individual pension schemes are private and their assets are held separately from those of the Group.

Salaries and benefits were reviewed in January 2009 to cover the year from 1 February 2009 to 31 January 2010. Future reviews will continue to be undertaken on an annual basis each January to enable the Group's performance over the preceding financial year and the strategy for the forthcoming year to be considered.

Service contracts
All Executive Directors except the Chairman are employed under service contracts requiring six months' notice by either party. All Non-Executive Directors and the Chairman receive payments under appointment letters which are terminable by three months' notice from either party. In addition, the Chairman has a consulting contract through Stapleford Scientific Services Limited with the subsidiary company, Futura Medical Developments Limited, requiring one month's notice by either party.

All Directors are also directors of the subsidiary company, Futura Medical Developments Limited.

Policy on Non-Executive Directors' remuneration
The Non-Executive Directors and the Chairman each receive a fee for their services as a director, which is approved by the Board, mindful of the time commitment and responsibilities of their roles and of current market rates for comparable organisations and appointments. Non-Executive Directors and the Chairman are reimbursed for travelling and other minor expenses incurred on Group business.

The Chairman has received options and is eligible to receive further grants of options or other share-based incentives in the future in accordance with Group policy. Since this was the basis of his original appointment and he is not considered independent by the Board, it is not the intention to seek shareholder approval specifically for any future grants of options to the Chairman nor to require any shares acquired by virtue of the exercise of those options to be held by the Chairman for at least one year after leaving the Board.

However, to maintain independence the independent Non-Executive Directors do not participate in any incentive or share option arrangements.

Policy on Non-Executive Directors' remuneration (continued)

The emoluments of the Directors, who represent the key management personnel, were as follows:

	Year ended 31 December 2008				Year ended 31 December 2007
	Salary and Directors' Fees £	Benefits in Kind £	Pension £	Total £	Total £
Executive Directors					
W D Potter	27,833	–	–	27,833	25,821
J H Barder	161,750	4,495	22,837	189,082	177,178
D B Davies	129,251	2,671	26,954	158,876	146,873
A L Clayden – resigned 31 May 2008	47,075	1,239	8,929	57,243	124,226
D A Martin – appointed 24 September 2008	23,725	571	3,029	27,325	–
Non-Executive Directors					
J D Freeman	24,604	–	–	24,604	22,854
A Slater – resigned 31 March 2008	6,042	–	–	6,042	22,854
L Arnold – appointed 31 March 2008	18,562	–	–	18,562	–
Totals	438,842	8,976	61,749	509,567	519,806

The above fees and emoluments exclude reimbursed expenditure incurred in the conduct of Group business.

In addition to the above emoluments, W D Potter provides consulting services to Futura Medical Developments Limited, the wholly owned subsidiary, through his consulting company Stapleford Scientific Services Limited. These comprised fees of £82,967 plus reimbursed expenditure of £2,263 (2007: fees £76,000 plus expenses £3,668).

Directors' interests in shares

	31 December 2008		31 December 2007	
	Beneficial Interests	Non-beneficial Interests	Beneficial Interests	Non-beneficial Interests
W D Potter	81,098	–	81,098	–
J H Barder	303,712	416,500	303,712	416,500
D B Davies	407,572	–	407,572	–
Totals	792,382	416,500	792,382	416,500

At 31 May 2008 and at 31 December 2007 A L Clayden had a beneficial interest in 270,305 shares. Other than as shown in the table, no Director had any interest in the shares of the Company or in the subsidiary company, Futura Medical Developments Limited, at 31 December 2008.

Directors' Report: Remuneration Report Continued

Directors' interests in share options

The Board uses share options to align Directors and employees interests with those of shareholders in order to provide incentives and reward them based on improvements in Group performance.

The number of share options held by the Directors at 31 December 2008 and the related share-based payment expense are summarised below:

	31 December 2008		31 December 2007	
	Options Held	Share-based Payment Expense	Options Held	Share-based Payment Expense
W D Potter	50,000	–	50,000	609
J H Barder	100,000	–	100,000	1,216
D B Davies	100,000	–	100,000	1,216
A C Clayden	–	–	100,000	1,216
D A Martin	200,000	4,454	–	–
Totals	450,000	4,454	350,000	4,257

The approved share options held by A L Clayden lapsed on 31 May 2008, the date of his leaving the Group.

The share options under the Futura Medical plc Unapproved Share Option Scheme (formerly the Futura Medical plc Pre-IPO Share Option Scheme) of the Directors who served during the year are set out below:

	Grant Date	Number Awarded	Exercise Price/Share	Earliest Exercise Date	Expiry Date
W D Potter	22 March 2005	50,000	76p	1 April 2007	31 March 2009

The share options of the Directors under the Futura Medical plc Enterprise Management Incentive Scheme are set out below:

	Grant Date	Number Awarded	Exercise Price/Share	Earliest Exercise Date	Expiry Date
J H Barder	22 March 2005	100,000	76p	1 April 2007	31 March 2009
D B Davies	22 March 2005	100,000	76p	1 April 2007	31 March 2009
D A Martin	9 July 2007	100,000	56.25p	1 February 2009	31 January 2014
D A Martin	20 June 2008	100,000	41.75p	1 February 2010	31 January 2015
Totals		400,000			

All options were granted with an exercise price at or above market value on the date of grant. The independent Non-Executive Directors do not receive share options in order to maintain their independence under the Combined Code.

The main vesting condition of the options is that the Directors remain employed with the Group as at the date of exercise.

Directors' interests in long term incentive scheme

Assuming that each remaining milestone is met, at the target share price and before the next target date ends, and if the awards were to be equity settled then the number of shares that could be awarded before tax to the participating Executive Directors would be:

	2009	2010	2011	2012
W D Potter	181,250	31,250	31,250	31,250
J H Barder	181,250	31,250	31,250	31,250
D B Davies	181,250	31,250	31,250	31,250
D A Martin	131,250	31,250	31,250	31,250
Totals	675,000	125,000	125,000	125,000

J D Freeman
Chairman of the Remuneration Committee

Directors' Report: Statement of Responsibilities

Adequacy of information supplied to auditors

Each Director has taken all reasonable steps to make themselves aware of any information needed by the Group's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

Directors' responsibility statement

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Group, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The Directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The Directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The Directors have chosen to continue to prepare financial statements for the Company in accordance with UK Generally Accepted Accounting Practice.

Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Parent company financial statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

By order of the Board

D A Martin
Secretary
12 May 2009

Independent Auditor's Report

To the shareholders of Futura Medical plc

We have audited the Group and parent company financial statements (the "financial statements") of Futura Medical plc for the year ended 31 December 2008, which comprise: Consolidated Income Statement, Consolidated Statement of Changes in Equity, Consolidated Balance Sheet, Consolidated Cash Flow Statement and Parent Company Balance Sheet plus related notes to the financial statements. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and Group financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Directors' Report: Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Company Overview, Highlights, Futura at a Glance, Product Pipeline, Chairman's and Chief Executive's Joint Review and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

BDO STOY HAYWARD LLP
Chartered Accountants
and Registered Auditors
Reading

12 May 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Revenue	1.5	**150,000**	15,000
Grant income	4	**73,828**	96,172
Research and development costs		**(1,390,616)**	(1,508,269)
Administrative costs		**(1,007,964)**	(1,227,320)
Operating loss	5	**(2,174,752)**	(2,624,417)
Finance income	8	**96,550**	161,291
Loss before tax		**(2,078,202)**	(2,463,126)
Taxation	9	**143,443**	208,717
Loss for the year attributable to equity holders of the parent company		**(1,934,759)**	(2,254,409)
Basic and diluted loss per share (pence)	10	**(3.4p)**	(4.1p)

All amounts relate to continuing activities.

The notes on pages 32 to 47 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Note	Share capital £	Share premium £	Merger reserve £	Retained losses £	Total equity £
At 1 January 2007		110,607	12,251,275	1,152,165	(9,565,531)	3,948,516
Loss for the year		–	–	–	(2,254,409)	(2,254,409)
Share-based payment		–	–	–	64,651	64,651
Shares issued during the year	17	4,631	1,111,869	–	–	1,116,500
Cost of share issues		–	(101,768)	–	–	(101,768)
At 1 January 2008		115,238	13,261,376	1,152,165	(11,755,289)	2,773,490
Loss for the year		–	–	–	(1,934,759)	(1,934,759)
Share-based payment		–	–	–	47,621	47,621
At 31 December 2008		**115,238**	**13,261,376**	**1,152,165**	**(13,642,427)**	**886,352**

Share premium represents amounts subscribed for share capital in excess of nominal value less the related costs of share issues. There were no shares issued during 2008.

Merger reserve represents the reserve arising on the acquisition of Futura Medical Developments Limited on 6 June 2001 via a share for share exchange accounted for as a group reconstruction using merger accounting under UK GAAP.

Retained losses represent cumulative net losses recognised in the consolidated income statement. The loss for the year represents the total recognised income and expense for the year.

The notes on pages 32 to 47 form part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2008

	Notes	As at 31 December 2008 £	As at 31 December 2007 £
Assets			
Non-current assets			
Plant and equipment	11	**20,493**	35,415
Total non-current assets		**20,493**	35,415
Current assets			
Inventories	12	**10,435**	23,344
Trade and other receivables	14	**60,020**	183,283
Income tax asset	9	**165,526**	208,717
Cash and cash equivalents	15	**782,253**	2,637,892
Total current assets		**1,018,234**	3,053,236
Liabilities			
Current liabilities			
Trade and other payables	16	**(152,375)**	(315,161)
Total liabilities		**(152,375)**	(315,161)
Total net assets		**886,352**	2,773,490
Capital and reserves attributable to equity holders of the parent company			
Share capital	17	**115,238**	115,238
Share premium		**13,261,376**	13,261,376
Merger reserve		**1,152,165**	1,152,165
Retained losses		**(13,642,427)**	(11,755,289)
Total equity		**886,352**	2,773,490

These consolidated financial statements were approved and authorised for issue by the Board on 12 May 2009.
The notes on pages 32 to 47 form part of these consolidated financial statements.

J H Barder
Director

On behalf of the Board of Futura Medical plc.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Cash flows from operating activities			
Loss before tax		**(2,078,202)**	(2,463,126)
Adjustments for:			
Depreciation	11	**16,427**	15,194
Finance income	8	**(96,550)**	(161,291)
Share-based payment charge	18	**47,621**	64,651
Cash flows from operating activities before changes in working capital		**(2,110,704)**	(2,544,572)
Decrease in inventories	12	**12,909**	9,304
Decrease/(increase) in trade and other receivables	14	**103,150**	(21,147)
(Decrease)/increase in trade and other payables	16	**(162,786)**	79,095
Cash used in operations		**(2,157,431)**	(2,477,320)
Income tax received		**186,634**	195,034
Net cash used in operating activities		**(1,970,797)**	(2,282,286)
Cash flows from investing activities			
Purchase of plant and equipment	11	**(1,505)**	(30,500)
Disposal of medium term deposits		**–**	1,039,031
Interest received		**116,663**	156,148
Cash generated by investing activities		**115,158**	1,164,679
Cash flows from financing activities			
Issue of ordinary shares	17	**–**	1,016,500
Expenses paid in connection with share issues	17	**–**	(1,768)
Cash generated by financing activities		**–**	1,014,732
Decrease in cash and cash equivalents	15	**(1,855,639)**	(102,875)
Cash and cash equivalents at beginning of year	15	**2,637,892**	2,740,767
Cash and cash equivalents at end of year	15	**782,253**	2,637,892

The notes on pages 32 to 47 form part of these consolidated financial statements.

1. Accounting policies

1.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

The accounting policies are set out below, have been applied to all periods presented in these consolidated financial statements and are in accordance with IFRS, as adopted by the European Union, and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that were applicable for the year ended 31 December 2008.

1.2 Going concern

The Group had cash balances of £0.78 million at 31 December 2008, and a net cash outflow of £1.86 million in the year. The Directors expect a further net cash outflow in the 12 months to 31 December 2009 and recognise that there will be a need for increased funding. As disclosed in note 21 the Group raised £1.00 million following a private placing of 5 million shares at 20 pence per share on 12 March 2009.

The consolidated financial statements have been prepared on the going concern basis which assumes that the Group will continue in operational existence for the foreseeable future. The Directors have reviewed the working capital requirements of the Group for the next 12 months and are confident that any further facilities required can be obtained. The Directors have also identified a number of steps that could be taken to improve the working capital situation, should further facilities not be available in the timeframe required. The consolidated financial statements do not reflect any adjustments that would be required if they were to be prepared on a basis other than the going concern basis.

1.3 Accounting developments

The following new standards, amendments to standards and interpretations have been issued but are not effective for the year ending 31 December 2008. The new standards, amendments to standards and interpretations will be relevant to the Group but have not been adopted early as the Directors do not expect these standards and interpretations to have a material effect on the consolidated financial statements:

- 'Vesting Conditions and Cancellations - Amendment to IFRS 2 Share-based Payment' effective 1 January 2009.
- IFRS 8 'Operating Segments' effective 1 January 2009.
- IAS 1 (Revised) 'Presentation of Financial Statements' effective 1 January 2009.
- IFRS 3 (Revised) 'Business Combinations' effective 1 July 2009.
- IAS 27 (Amendment) 'Consolidated and Separate Financial Statements' effective 1 July 2009.
- 'Improvements to IFRSs (2007)' effective 1 July 2009 and 1 January 2010.

There are a number of standards, interpretations and amendments to published accounts not listed above which the Directors consider not to be relevant to the Group.

1.4 Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business, so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its sole subsidiary Futura Medical Developments Limited ("FMDL") as if they formed a single entity ("the Group"). Intra group transactions and balances are eliminated in preparing the consolidated financial statements.

1. Accounting policies (continued)

1.5 Revenue

Revenue comprises the fair value received or receivable for exclusivity arrangements, consultancy fees, milestone income and royalties, net of value added tax.

The accounting policies for the principal revenue streams of the Group are as follows:

(i) Exclusivity arrangements and similar agreements are recognised as revenue in the accounting period in which the related services, or required activities, are performed or specified conditions are fulfilled in accordance with the terms of completion of the specific transaction.

(ii) Consultancy fees are recognised as revenue in the accounting period in which the revenue becomes receivable.

(iii) Royalty income relating to the sale by a licensee of licensed product is recognised on an accruals basis in accordance with the substance of the relevant agreement and based on the receipt from the licensee of the relevant information to enable calculation of the royalty due.

(iv) Non-refundable milestone income is recognised as revenue in the accounting period in which the milestones are achieved. If any milestone income is creditable against royalty payments then it is deferred and released to the income statement over the period in which the royalties would otherwise be receivable.

1.6 Leased assets

Leases, which contain terms whereby the Group does not assume substantially all the risks and rewards incidental to ownership of the leased item are classified as operating leases. Operating lease rentals are charged to the income statement on a straight line basis over the lease term. The Group does not hold any assets under finance leases.

1.7 Intangible assets

Research and development

Certain Group products are in the research phase and others are in the development phase. Expenditure incurred on the development of internally generated products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods in which the Group expects to benefit from selling the products developed. The amortisation expense is included in research and development costs recognised in the income statement. The useful life and the value of the capitalised development cost are assessed for impairment at least annually. The value is written down immediately if impairment has occurred and the unimpaired cost amortised over the reduced useful life. The Directors consider that the criteria to capitalise development expenditure are not met for a product prior to that product receiving regulatory approval for sale in at least one country.

Development expenditure, not satisfying the above criteria, and expenditure on the research phase of internal projects are included in research and development costs recognised in the income statement as incurred.

Patents and trademarks

The costs incurred in establishing patents and trademarks are either expensed or capitalised in accordance with the corresponding treatment of the development expenditure for the product to which they relate.

1. Accounting policies (continued)

1.8 Plant and equipment

Plant and equipment is initially recognised at cost, and subsequently at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is charged to the income statement at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over their estimated useful lives.

The assets' residual values and useful lives are determined by the Directors and reviewed and adjusted if appropriate at each balance sheet date.

1.9 Impairment of non-financial assets

Assets that are subject to depreciation are reviewed for impairment on a half yearly basis and when events or circumstances suggest that the carrying amount may not be recoverable. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). An impairment loss is recognised immediately in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of fair value, less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in the income statement.

1.10 Inventories

Inventories are materials and supplies to be consumed in the course of research and development and are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost includes materials, related contract manufacturing costs and other direct costs. Cost is calculated using the first-in first-out method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

A provision is recognised immediately in the income statement in respect of obsolete, slow-moving or defective items where appropriate.

1.11 Financial instruments

Financial assets

The Group classifies its financial assets in the category of loans and receivables, they comprise 'trade and other receivables' and 'cash and cash equivalents'. They are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

Trade and other receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method, less an estimate made for impairment based on a review of all past due amounts at the year end. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due. If an impairment loss is required the carrying amount of the trade or other receivable is reduced through the use of an allowance account and the amount of the loss recognised immediately in the income statement in administrative costs.

Medium term deposits, comprising sterling fixed rate deposits, with original maturities of more than three months are included in trade and other receivables.

Cash and cash equivalents are financial assets and comprise cash in hand and sterling fixed rate short term deposits with original maturities of three months or less which are held by the Group so as to be available to meet short term cash commitments.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired.

1. Accounting policies (continued)

Financial liabilities

The Group's financial liabilities comprise 'trade and other payables' recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

1.12 Government grants

Government grants are recognised at fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs defrayed are accrued and recognised in the income statement over the period required to match them with the costs which they reimburse.

1.13 Taxation

Income tax is recognised or provided at amounts expected to be recovered or to be paid using the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Research and development tax credits are recognised on an accruals basis and are included as an income tax credit under current assets.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability on the balance sheet differs from its tax base, except for differences arising on:

- the initial recognition of an asset or liability in a transaction which is not a business combination and which at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profits will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, on each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

1.14 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement in the period in which they arise.

1.15 Employee benefits

(i) Defined contribution plans

The Group provides retirement benefits to all employees and Executive Directors (except the Chairman) who wish to participate in defined contribution pension schemes. The assets of these schemes are held separately from those of the Group in independently administered funds. Contributions made by the Group are charged to the income statement in the period in which they become payable.

1. Accounting policies (continued)

(ii) Accrued holiday pay
Provision is made at each balance sheet date for holidays accrued but not taken at the salary of the relevant employee at that date. The expected cost of compensated short term absence (i.e. holidays) is charged to the income statement on an accruals basis.

(iii) Share-based payment transactions
The Group operates an equity-settled, share-based compensation plan. For all share options awarded to employees, and others providing similar services, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative charge is not adjusted for failure to achieve a market vesting condition. If the terms and conditions of options are modified before they vest, the change in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

The proceeds received when options are exercised, net of any directly attributable transaction costs, are credited to share capital (nominal value) and the remaining balance to share premium reserve. All employee option holders enter into a HM Revenue & Customs joint election to transfer the employers' national insurance contribution potential liability to the employee, therefore no asset or liability arises.

(iv) Long term incentive scheme
The Group operates a long term incentive scheme for executive directors. The quantum of any awards receivable by the executive directors will depend on the Group achieving set milestones and the share price at the time relative to targets set in advance. The Group can exercise discretion in settling any award in equity or in cash.

1.16 Finance income
Interest income is recognised on a time-proportion basis using the effective interest rate method.

1.17 Critical accounting estimates and judgements
Critical accounting estimates, assumptions and judgements are continually evaluated by management based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

Judgements
(i) Revenue recognition
The fee received in 2007 in respect of the TPR100 exclusivity agreement has been recognised as revenue in the current year as the Directors consider that the relevant conditions of the agreement have now all been met.

(ii) Intangible asset recognition
The Directors consider that the criteria to capitalise development expenditure are not met for a product prior to receiving regulatory approval for sale in at least one country.

(iii) Deferred tax recognition
The Directors consider that, given the current stage of development of the business, deferred tax assets should not be recognised before the Group is generating significant revenue.

1. Accounting policies (continued)

Estimates and assumptions

(iv) Useful lives of plant and equipment

Plant and equipment is amortised or depreciated over its useful life. Useful lives are based on the Directors' estimates of the periods over which the assets will be used in developing revenue generating products and the estimates are reviewed annually for continued appropriateness. The estimated useful lives are between 2 and 5 years for computer equipment and between 3 and 10 years for furniture and fittings. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated income statement in specific periods.

(v) Fair value of financial instruments

The Group determines the fair value of financial instruments using valuation techniques which can be significantly affected by the assumptions used, including interest and discount rates and estimates of future cash flows.

(vi) Inventories

The Group reviews the net realisable value of its inventories on a half yearly basis to provide assurance that recorded inventories are stated at the lower of cost or net realisable value. Factors that could impact realisable value include the timing and success of future technological innovations in relation to product research and development, competitor and Government actions, supplier prices and economic trends.

(vii) Share-based payments

The Group operates an equity-settled, share-based compensation plan as detailed in note 18. Employee and similar services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of grant.

2. Financial risk management

2.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk.

It is Group policy not to enter into speculative positions using complex financial instruments. The Group's primary treasury objective is to minimise exposure to potential capital losses whilst at the same time securing favourable market rates of interest on Group cash deposits using money market deposits with banks. Cash balances used to settle the liabilities from operating activities are also maintained in current accounts which earn interest at variable rates.

(i) Market risk

Foreign exchange risk

The Group primarily enters into supplier contracts which are to be settled in sterling. However, some contracts involve other major world currencies including the US Dollar and the Euro. Where large supplier contracts of more than £100,000 total value are to be settled in foreign currencies consideration is given to settling the sums to be paid through conversion of sterling deposits to the appropriate foreign currency holdings at the outset of the contract to minimise the risk of adverse currency fluctuations.

For contracts with smaller values the foreign currency risk is not considered sufficient to require the establishment of foreign currency bank accounts unless specific circumstances are identified which warrant this.

2. Financial risk management (continued)

At 31 December 2008 the Group had trade payables denominated in Euros of £2,560. If the Euro at 31 December 2008 had weakened/strengthened against the UK pound by 5% the post-tax loss for the year would have been £122 lower/ £135 higher and net assets correspondingly higher/lower.

At 31 December 2007 the Group had trade payables denominated in US dollars of £6,611. If the US dollar at 31 December 2007 had weakened/strengthened against the UK pound by 5% the post-tax loss for the year would have been £156 lower/£524 higher and net assets correspondingly higher/lower.

Cash flow interest rate risk and fair value interest rate risk
The Group's interest rate risk arises from medium term and short term money market deposits. Deposits which earn variable rates of interest expose the Group to cash flow interest rate risk. Deposits at fixed rates expose the Group to fair value interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis.

The impact in the year ended 2008, of a defined interest rate shift of a 1% higher/lower rate of interest earned per annum applied to the term deposits over the period of the deposit, on the post-tax loss for the year and net assets would have been £19,864 lower/higher (2007: £25,534 lower/higher).

(ii) Credit risk
Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposure in relation to outstanding receivables. Group policy is to spread deposits over at least two institutions with investment grade A2 or better (Moody's credit rating) and deposits are made in sterling only. The Group does not expect any losses from non-performance by these institutions.

(iii) Liquidity risk
Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

The Group had trade and other payables at the balance sheet date of £152,375 (2007: £315,161) as disclosed in note 16.

2.2 Capital risk management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders of the Company and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

2.3 Fair value estimation
The Group uses amortised cost, using the effective interest rate method, to determine subsequent fair value after initial recognition, for its financial instruments.

3. Segment reporting

The Group is organised and operates as one business segment, being the development of pharmaceutical drugs and medical devices and their commercial exploitation. The main area of research and development continues to be in the field of innovative products for the consumer healthcare market with the main focus being on sexual health.

The Group manages any overseas research and development from the UK, the primary business segment. Segment revenue is based on the geographical location of the Group's customers which at this stage is solely the UK. Since there is currently only one business segment and one geographical segment, no separate segment reporting has been prepared.

4. Government grants

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
SEEDA R&D grant income recognised in income statement	**73,828**	96,172
SEEDA R&D grant accrued income (note 14)	**317**	15,510

There were no unfulfilled conditions attaching to the government grant income that has been recognised.

5. Operating loss

Operating loss is stated after charging	**Year ended 31 December 2008 £**	Year ended 31 December 2007 £
Depreciation of plant and equipment (note 11)	**16,427**	15,194
Inventories consumed in research and development	**7,674**	12,121
Realised exchange losses	**1,207**	2,774
Wages and salaries (note 6)	**1,021,694**	1,050,056
Operating lease costs (note 20)	**73,613**	75,132

The fees of the Group's auditor, BDO Stoy Hayward LLP, for services provided are analysed below:

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Audit services		
Parent company	**24,000**	25,800
Subsidiary	**3,500**	6,050
Tax services		
Parent company	**750**	850
Subsidiary	**3,250**	4,250
Other services		
Parent company – interim review	**–**	6,000
Parent company – IFRS conversion review	**–**	6,500
Subsidiary	**–**	1,350
Total fees	**31,500**	50,800

6. Wages and salaries

The average monthly number of persons (including all Directors) employed by the Group during the year was 12 (by category: R&D 4, administration 8), (2007:14, by category: R&D 5, administration 9) and their aggregate emoluments were:

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Wages and salaries	**760,717**	799,892
Social security costs	**87,143**	94,427
Other pension and insurance benefits costs	**123,407**	87,031
Total cash settled emoluments	**971,267**	981,350
Accrued holiday pay	**2,806**	4,055
Share-based payment remuneration charge (note 18)	**47,621**	64,651
Total emoluments	**1,021,694**	1,050,056

All employees of the Group are employed by Futura Medical Developments Limited.

7. Directors' emoluments

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Aggregate emoluments	**447,818**	481,929
Company pension contributions	**61,750**	37,877

Emoluments disclosed above include the following amounts in respect of the highest paid Director:

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Aggregate emoluments	**166,245**	162,461
Company pension contributions	**22,837**	14,717

During the year, three Directors (2007: three Directors) participated in a private money purchase (defined contribution) pension scheme.

8. Finance income

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Interest receivable on fixed rate medium term deposits	**46,023**	41,757
Interest receivable on fixed rate short term deposits	**50,527**	119,534
	96,550	161,291

9. Taxation

Current tax

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
UK corporation tax credit on loss for the year	**165,526**	208,717
Adjustment for over-provision in prior year	**(22,083)**	–
Taxation credit reported in the income statement	**143,443**	208,717

The tax assessed for the year is different from the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Loss on ordinary activities before tax	**2,078,202**	2,463,126
Loss on ordinary activities at the average standard rate of corporation tax in the UK of 20.75% (2007: 19.75%)	**431,227**	486,467
Expenses not deductible for tax purposes	**(1,277)**	(1,075)
Difference between depreciation and capital allowances	**(3,409)**	(3,001)
Other short-term timing differences	**(10,484)**	(13,195)
Unutilised tax losses	**(285,050)**	(319,591)
Schedule 23 deduction for share options	**–**	3,061
Additional relief attaching to tax credit claims	**34,519**	56,051
Over-provision in prior year	**(22,083)**	–
Taxation credit reported in the income statement	**143,443**	208,717

The Group has tax losses of approximately £10,306,437 (2007: £8,932,703) available for offset against future taxable profits.

Deferred tax

Deferred tax assets amounting to £2,313,344 (2007: £1,996,394) have not been recognised on the basis that their future economic benefit is not certain. Assuming a prevailing tax rate of 22% (2007: 22%) when the timing differences reverse, the unrecognised deferred tax asset comprises:

	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Depreciation in excess of capital allowances	**9,015**	5,401
Other short term timing differences	**36,913**	25,798
Unutilised tax losses	**2,267,416**	1,965,195
	2,313,344	1,996,394

10. Loss per share

The calculation of the loss per share is based on a loss of £1,934,759 (2007: loss of £2,254,409) and on a weighted average number of shares in issue of 57,618,840 (2007: 55,603,121).

The loss attributable to equity holders of the parent company for the purpose of calculating the diluted loss per share is identical to that used for calculating the basic loss per share. The exercise of share options, details of which are disclosed in note 18, or the issue of shares under the long term incentive scheme, would have the effect of reducing the loss per share and is therefore anti-dilutive under the terms of IAS 33 'Earnings per Share'.

11. Plant and equipment

	Computer equipment £	Furniture and fittings £	Total £
Cost			
At 1 January 2008	56,214	53,044	109,258
Additions	1,505	–	1,505
At 31 December 2008	**57,719**	**53,044**	**110,763**
Depreciation			
At 1 January 2008	30,771	43,072	73,843
Charge for year	12,307	4,120	16,427
At 31 December 2008	**43,078**	**47,192**	**90,270**
Net book value			
At 31 December 2008	**14,641**	**5,852**	**20,493**
At 31 December 2007	25,443	9,972	35,415

	Computer equipment £	Furniture and fittings £	Total £
Cost			
At 1 January 2007	33,796	45,037	78,833
Reclassifications	(50)	(25)	(75)
Additions	22,468	8,032	30,500
At 31 December 2007	**56,214**	**53,044**	**109,258**
Depreciation			
At 1 January 2007	20,573	38,151	58,724
Reclassifications	(50)	(25)	(75)
Charge for year	10,248	4,946	15,194
At 31 December 2007	**30,771**	**43,072**	**73,843**
Net book value			
At 31 December 2007	**25,443**	**9,972**	**35,415**
At 31 December 2006	13,223	6,886	20,109

All fixed assets of the Group are held in Futura Medical Developments Limited.

12. Inventories

	31 December 2008 £	31 December 2007 £
Raw materials and consumables	**10,435**	23,344

13. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

	31 December 2008 £	31 December 2007 £
Assets as per balance sheet		
Loans and receivables		
Trade and other receivables	**60,020**	183,283
Cash and cash equivalents	**782,253**	2,637,892
Total loans and receivables	**842,273**	2,821,175

	31 December 2008 £	31 December 2007 £
Liabilities as per balance sheet		
Total trade and other payables	**152,375**	315,161

14. Trade and other receivables

	31 December 2008 £	31 December 2007 £
Amounts receivable within one year:		
Trade receivables	**–**	81,967
Other receivables	**13,440**	31,764
Prepayments and accrued income	**46,580**	69,552
	60,020	183,283

Trade receivables that are under three months past due are not considered impaired.

As of 31 December 2008, there were no trade receivables past due but not impaired (2007: £49,492). These related to a single independent established healthcare group for whom there is no history of default. The ageing analysis of the past due trade receivables is:

	31 December 2008 £	31 December 2007 £
Under three months past due	**–**	49,492

The other classes within trade and other receivables do not contain impaired assets. The Group does not hold any collateral as security and the maximum exposure to credit risk at the reporting date is the fair value of each class of receivable.

15. Cash and cash equivalents

	31 December 2008 £	31 December 2007 £
Cash at bank and in hand	**24,701**	263,183
Sterling fixed rate short term deposits of up to three months maturity	**757,552**	2,374,709
	782,253	2,637,892

16. Trade and other payables

	31 December 2008 £	31 December 2007 £
Trade payables	**70,888**	99,243
Social security and other taxes	**32,123**	38,147
Accrued expenses	**49,364**	27,771
Deferred income	**–**	150,000
	152,375	315,161

17. Share capital

	Authorised			
	31 December 2008 No.	31 December 2007 No.	31 December 2008 £	31 December 2007 £
Ordinary shares of 0.2 pence each	**500,000,000**	500,000,000	**1,000,000**	1,000,000

	Allotted, called up and fully paid			
	31 December 2008 No.	31 December 2007 No.	31 December 2008 £	31 December 2007 £
Ordinary shares of 0.2 pence each	**57,618,840**	57,618,840	**115,238**	115,238

The number of issued ordinary shares as at 1 January 2007 was 55,303,601.

During the year ended 31 December 2007, the Company issued shares of 0.2 pence each as follows:

Month	Reason for issue	Gross consideration £	Shares issued No.
January 2007	Exercise of share options	16,500	50,000
November 2007	Private placing at 48.56 pence per share	1,000,000	2,059,308
November 2007	Placing arrangement fee	100,000	205,931
		1,116,500	2,315,239

17. Share capital (continued)

There were no shares issued in the year ended 31 December 2008.

A further equity funding facility exists which would if called upon by the Company involve the issue of new ordinary shares at a price per share set at a 10 per cent discount to the average mid-price of the Company's shares during the five trading days prior to the agreement to issue the tranche of shares. The call option may only be exercised in respect of multiples of £0.50 million and in respect of a maximum aggregate amount of £1.00 million and may be exercised at any time prior to 20 May 2009.

As disclosed in note 21 the call option is unlikely to be honoured as the counter party to the option is a company which subsequently went into liquidation.

18. Share options

At 31 December 2008, the number of ordinary shares of 0.2 pence each subject to options granted under the Group's Approved and Unapproved Share Option Schemes were:

Exercise Period	Exercise price per share p	At 1 January 2008 No.	Grants during year No.	Options expired No.	Options lapsed No.	At 31 December 2008 No.
1 October 2006 – 30 September 2008	70	150,000	–	(50,000)	(100,000)	**–**
1 April 2007 – 31 March 2009	76	425,000	–	–	(145,000)	**280,000**
1 February 2008 – 31 January 2013	74.50	350,000	–	–	(150,000)	**200,000**
1 February 2009 – 31 January 2014	56.25	350,000	–	–	(50,000)	**300,000**
1 February 2010 – 31 January 2015	41.75	–	290,000	–	–	**290,000**
		1,275,000	290,000	(50,000)	(445,000)	**1,070,000**

The options outstanding at 31 December 2008 represented 1.9% of the issued share capital as at that date (2007: 2.2%) and would generate additional funds of £651,625 (2007: £885,625). The weighted average remaining life of the options was 47 months (2007: 42 months), with a weighted average remaining exercise price of 60.90p (2007: 69.46p).

The options exercisable at 31 December 2008 totalled 480,000 (2007: 575,000) with an average exercise price of 75.38p (2007: 74.43p) and would generate additional funds of £361,800 (2007: £428,000).

On 20 June 2008 options over 290,000 new ordinary shares were granted to employees (not Directors).

The Group's share option scheme rules apply to 970,000 of the options outstanding at 31 December 2008 (31 December 2007: 1,175,000) and include a rule regarding forfeiture of the unexercised options by a director or employee upon the cessation of their employment (except in specific circumstances). There were no market conditions within the terms of the grant of the options.

The Black-Scholes-Merton formula is the option pricing model applied to the grants of all options made in respect of calculating the fair value of the options.

18. Share options (continued)

Inputs to option pricing model	31 December 2008	31 December 2007
Grant date	**20 June 2008**	9 July 2007
Number of shares under option	**290,000**	350,000
Share price at date of grant	**42.00p**	55.30p
Option exercise price	**41.75p**	56.25p
Expected life of options – based on previous exercise history	**3 years**	3 years
Expected volatility – based on 30 day annualised history	**37.06%**	39.23%
Dividend yield – no dividends assumed	**0%**	0%
Risk free rate – yield on treasury stock at date of grant	**5.10% p.a.**	5.76% p.a.

Outputs generated from option pricing model	31 December 2008	31 December 2007
Fair value per share under option	**13p**	18p
Total expected charge over the vesting period	**£37,700**	£63,000

Recognised in the income statement for the year	31 December 2008	31 December 2007
The share-based remuneration charge (note 6) comprises:		
Share-based payments	**£47,621**	£64,651

19. Pension costs

The pension charge represents contributions payable by the Group to independently administered funds which during the year ended 31 December 2008 amounted to £102,583 (2007: £67,258). Pension contributions payable one month in arrears at 31 December 2008 totalled £2,358 (2007: £2,258) and are included in accrued expenses at the relevant balance sheet date.

20. Commitments

At 31 December 2008 the Group had operating lease commitments in respect of property leases cancellable on one month's notice of £6,194 (2007: £6,014).

21. Post balance sheet events

As disclosed in the Directors' Report: Financial Review on page 11 the Group raised £1.00 million (£918,250 net) following a private placing of 5 million shares at 20 pence per share on 12 March 2009. The funds raised are for general corporate and research and development purposes.

The 280,000 options which were granted at 76p expired unexercised on 31 March 2009.

On 3 April 2009 the Company gave notice of its intention to exercise the call option for £1.00 million under the further equity funding facility. This is a formality however as the counter party to the option is a company which recently went into liquidation and the option is therefore unlikely to be honoured.

22. Related party transactions

Related parties, as defined by IAS 24 'Related Party Disclosures', are the wholly owned subsidiary company, Futura Medical Developments Limited, and the Board. Transactions between the Company and the wholly owned subsidiary company have been eliminated on consolidation and are not disclosed in this note.

W D Potter, a Director of the Company, provides consulting services to the wholly owned subsidiary, Futura Medical Developments Limited, through Stapleford Scientific Services Limited. Of the total fees and expenses, excluding VAT, invoiced during the year of £85,230 (2007: £79,668), the amount outstanding at 31 December 2008 including VAT was £8,060 (2007: £7,651), which is to be settled in cash.

Key management compensation

The Directors represent the key management personnel. Details of their compensation and share options are given in note 7 and within the Directors' Report: Remuneration Report on pages 21 to 25.

Parent Company Balance Sheet

For the year ended 31 December 2008

	Notes	As at 31 December 2008 £	As at 31 December 2007 £
Fixed assets			
Investment	3	**278,178**	230,557
Current assets			
Debtors – due within one year	4	**12,003**	30,838
Debtors – due after more than one year	4	**12,312,948**	10,667,214
Total debtors		**12,324,951**	10,698,052
Cash at bank and in hand		**767,611**	2,419,323
Total current assets		**13,092,562**	13,117,375
Creditors: amounts falling due within one year	5	**(32,211)**	(5,697)
Net current assets		**13,060,351**	13,111,678
Total net assets		**13,338,529**	13,342,235
Capital and reserves			
Called up share capital	6	**115,238**	115,238
Share premium account	7	**13,261,376**	13,261,376
Profit and loss account	7	**(38,085)**	(34,379)
Equity shareholders' funds		**13,338,529**	13,342,235

These financial statements were approved and authorised for issue by the Board on 12 May 2009.
The notes on pages 49 to 50 form part of these parent company financial statements.

J H Barder
Director

On behalf of the Board of Futura Medical plc.

Notes to the Parent Company Financial Statements

For the year ended 31 December 2008

1. Accounting policies

The parent company financial statements have been prepared under the historical cost convention and in accordance with UK GAAP.

Share-based employee remuneration

The Company has no employees; however the Company does issue shares to satisfy share awards made by its subsidiary company. The Company has applied Financial Reporting Standard 20 'Share-based Payment' to all share options which were granted to employees of the subsidiary and which had not vested at 1 January 2007. The Company's investment in the subsidiary is increased by the capital contribution equivalent to the fair value of the share-based payment charge incurred by the subsidiary.

Taxation

Current tax, including UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that the recognition of deferred tax assets is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

2. Loss attributable to shareholders

As permitted by section 230 of the Companies Act 1985 no separate Company profit and loss account has been included in these financial statements. The Company made a loss after tax of £51,327 for the year ended 31 December 2008 (2007: profit after tax £7,169). The total fees of the Company's and Group's auditor, BDO Stoy Hayward LLP, for services provided are analysed in note 5 to the consolidated financial statements on page 39.

3. Investment

The investment represents 100% of the issued ordinary shares in the subsidiary undertaking Futura Medical Developments Limited, a company incorporated in England and Wales, and is stated at cost plus capital contribution to the subsidiary in respect of share-based payment charge less any provision for impairment. The results of the subsidiary company are included in the consolidated financial statements on pages 28 to 31.

	31 December 2008 £	31 December 2007 £
Cost	**278,178**	230,557

4. Debtors

	31 December 2008 £	31 December 2007 £
Amounts receivable within one year: prepayments	**12,003**	30,838
Amounts receivable after more than one year: Amounts owed by subsidiary	**12,312,948**	10,667,214

5. Creditors: amounts falling due within one year

	31 December 2008 £	31 December 2007 £
Trade creditors	**2,211**	2,697
Accruals and deferred income	**30,000**	3,000
	32,211	5,697

6. Share capital

	Authorised			
	31 December 2008 No.	31 December 2007 No.	**31 December 2008 £**	31 December 2007 £
Ordinary shares of 0.2 pence each	**500,000,000**	500,000,000	**1,000,000**	1,000,000

	Allotted, called up and fully paid			
	31 December 2008 No.	31 December 2007 No.	**31 December 2008 £**	31 December 2007 £
Ordinary shares of 0.2 pence each	**57,618,840**	57,618,840	**115,238**	115,238

Details of shares issued by the Company in the period are given in note 17 to the consolidated financial statements and details of share options outstanding are given in note 18 to the consolidated financial statements. Details of shares issued after the period end are given in note 21 to the consolidated financial statements.

7. Reserves

	Share premium account £	Profit and loss account £
At 1 January 2007	12,251,275	(106,199)
Retained profit for the year	–	7,169
Share-based payment	–	64,651
Shares issued during the year	1,111,869	–
Cost of share issues	(101,768)	–
At 1 January 2008	13,261,376	(34,379)
Retained loss for the year	–	(51,327)
Share-based payment	–	47,621
At 31 December 2008	**13,261,376**	**(38,085)**

8. Related party transactions

Details are given in note 22 to the consolidated financial statements.

Company Information

Company Number
4206001

Directors
Dr W D Potter, Executive Chairman
J H Barder, Chief Executive
D B Davies, Product Development Director
D A Martin, Finance Director
J D Freeman, Non-Executive Director
L Arnold, Non-Executive Director

Audit committee
J D Freeman
L Arnold

Remuneration committee
J D Freeman
L Arnold
Dr W D Potter
(adviser to committee)

Nominations committee
J D Freeman
L Arnold
Dr W D Potter
(adviser to committee)

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